USING TRADE PROMOTION AUTHORITY TO REDUCE NON-TARIFF BARRIERS

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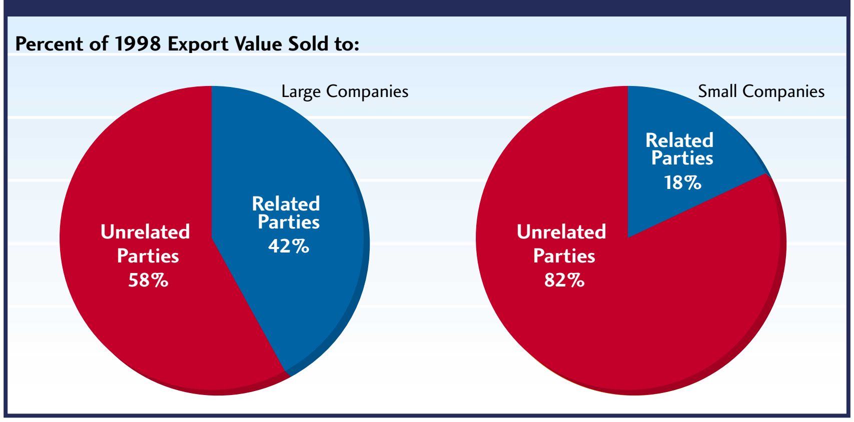
As a former executive in a family-owned business, I know only too well the day-to-day difficulties of small businesses. That is why I look forward to working with Under Secretary Grant Aldonas making small business concerns a priority for the International Trade Administration. Negotiating with our trade partners to lower non-tariff measures will be a tremendous help to all U.S. industries, but especially small businesses that simply do not have the resources to overcome these barriers to trade. The task of removing the barriers will be facilitated by Congressional approval of Trade Promotion Authority.

Trade Promotion Authority will give the Administration the leverage and credibility it needs to work to reduce non-tariff barriers to trade that hinder so many U.S. exporters. Complicated and restrictive non-tariff measures are one of the main reasons why many businesses do not pursue export markets as aggressively as they could. Non-tariff measures, as the name suggests, are barriers other than tariffs that restrict international trade. In many cases, governments implement non-tariff measures in order to protect domestic producers from foreign competition. For example, import quotas restrict the amount of U.S. goods that can be brought into a foreign country. In other cases, the measures are imposed for non-trade purposes but still have a chilling effect on U.S. exports. Examples of this type of measure are national product standards that ignore internationally accepted standards and scientific studies. Since these measures are often non-transparent and confusing, many U.S. exporters are surprised when their products are stopped at the border. Some examples of non-tariff measures include:

- Excessive testing, certification or product requirements;
- Excessive documentation requirements;
- Non-transparent regulatory processes;
- Restrictions against the ability of U.S. service providers to station essential personnel in foreign countries;
- Inadequate patent, copyright and trademark processes that fail to protect U.S. rights on such items are music CDs, software, books and company logos.

Unlike large companies, small and medium businesses generally are unable to devote significant resources

ONLY A SMALL SHARE OF EXPORTS FROM SMALL AND MEDIUM-SIZED ENTERPRISES ARE SOLD TO RELATED PARTIES



The Known Value of Merchandise Exports in 1998 was $554 billion
Definitions: Small and medium-sized enterprises (SMEs) have fewer than 500 employees. Large firms have 500 or more employees.
Note: Figures include only identifiable or "known" exporters — i.e., exports that can be linked to individual companies using information on U.S. export declarations. Source: 1998 Exporter Data Base, U.S. Department of Commerce.

to address global trade barriers. For example, large companies typically have offshore-related parties which not only account for the bulk of their overseas sales (see charts) but also help the parent company overcome non-tariff measures. Approximately 42 percent of large companies' exports go to related companies, in contrast to only 18 percent of small companies' exports. Small and medium businesses therefore have greater difficulty maneuvering around non-tariff measures that hinder exports in most sectors. Some specific non-tariff measures faced by the service, information technology, pharmaceutical and environmental technology industries are set out below.

SERVICES

Non-tariff measures in the services sector are as unpredictable as they are costly. As the largest component of the U.S. economy, services account for 28 percent of U.S. exports and totaled $293 billion in 2000. From telecommunications to finance to energy, nontransparent government regulation is an important barrier in foreign markets. Common barriers to services trade include market entry quotas, limitations on joint venture ownership, restrictions on foreign personnel and discriminatory government procurement practices. Many countries also have state-sponsored monopolies on the provision of such key services as telecommunications. In order to comply with the governmental restrictions, companies may face large time delays and administrative expenses that are especially cumbersome for smaller businesses. Small firms comprise the majority of the U.S. services sector and will benefit from clear, enforceable international services rules. The new round of global services trade negotiations now underway in the World Trade Organization will help improve market access for U.S. service providers.

INFORMATION TECHNOLOGY

While tariffs on many Information Technology products for most major markets have been eliminated as a result of the Information Technology Agreement, foreign non-tariff measures remain and are a growing cause for concern for this crucial component of the U.S. economy. With $134 billion in exports in 2000, the Information Technology sector contributed approximately one-third of real U.S. GDP growth from 1997 to 2000. Market access is limited by non-tariff measures that include local content requirements, technology transfer and duplicative or discriminatory certification requirements. Although the vast majority of information technology firms are small and medium companies, only a fraction of them are willing or able to establish foreign production facilities that would satisfy the local content or technology transfer requirements. The world market for Information Technology products is expected to grow as organizations invest to take advantage of the internet and e-commerce. Negotiating reductions to cumbersome non-tariff measures will help U.S. exports in this industry to grow as well.

PHARMACEUTICALS

The U.S. pharmaceutical industry is also severely threatened by non-tariff measures, most notably by the lack of intellectual property right protection in many countries. Additional barriers include restrictive registration requirements and government price, profit and volume controls. Although the United States exported nearly $13 billion in 2000—a 77 percent increase from 1996 levels—non-tariff measures are estimated to cost U.S. pharmaceutical companies $9 billion annually. The burden of these costs rests with the small and medium businesses that comprise 80 percent of the sector's exporters. The world pharmaceutical market grew 11 percent in 1999, with sales reaching approximately $337 billion. Annual growth is expected to be about 8 percent over the next five years. Latin America, a region where U.S. companies have long been

AVAILABLE REPORTS

INDUSTRY SECTOR REPORTS AVAILABLE ON WWW.TPA.GOV

- Agricultural Equipment
- Chemicals
- Civil Aircraft
- Coal and Energy Related Equipment
- Construction Equipment
- Distilled Spirits
- Environmental Technology
- Furniture
- Gems and Jewelry
- Household Appliances
- Industrial Machinery
- Information Technology
- Medical Equipment
- Metals
- Motor Vehicle Parts
- Paper and Paper Products
- Pharmaceutical Products
- Scientific Equipment
- Services
- Textile and Apparel
- Toys and Games
- Wood and Wood Products

TRUTHS ABOUT TRADE

- Exports account for over one fourth of our country's economic growth.
- Trade Promotion Authority is needed to break foreign trade barriers and create new markets and jobs.
- From 1974 through 1994 Congress granted every President—both Democrat and Republican – this type of authority.
- Over 130 bi-lateral and regional free trade agreements exist today. The United States is only party to two of them—NAFTA and U.S.-Israel FTA.
- NAFTA and Uruguay Round combined have increased the income of the United States by nearly $60 billion per year.
- Approximately $6 million in agriculture products such as grains, cotton, meats, and vegetables are consigned for export each day.
- Agriculture exports create nearly a million jobs and generate over $100 billion in business activity per year.
- Over one third of agriculture sales result from exports. During FY '00, $51 billion in agriculture goods were exported and $39 billion were imported, creating an agriculture trade surplus of $12 billion.
- Small and medium sized businesses (less than 500 employees) account for nearly 30% of all US goods that are exported.
- More than 50% of businesses that export have expanded their business and increased their product line over the past year.
- The value of small business exports increased by over 300% in the last five years.

hampered by non-tariff measures, accounts for about 8 percent of world pharmaceutical sales. The Free Trade Agreement of the Americas negotiations will help open the doors to U.S. exporters for this lucrative market.

ENVIRONMENTAL TECHNOLOGY PRODUCTS

This sector is also subjected to a variety of non-tariff barriers including restrictive technical standards, labeling, packaging and documentation requirements; local government procurement requirements and contracting procedures; and restrictions on professional services, investment and foreign ownership. United States exports of environmental technology products totaled $28.5 billion in 2000. Exports account for 11 percent of the total revenue of the U.S. environmental industry and support some 145,000 U.S. jobs. The U.S. environmental technologies industry accounted for $196 billion in revenues in 1999, nearly 30 percent of which was generated by small and medium sized companies. The World Trade Organization and Free Trade Area of the Americas negotiations will allow more U.S. firms to gain increased access to key markets, particularly in emerging economies, where demand for environmental technologies is rapidly expanding. Our trade liberalization with Mexico serves as an excellent example of expanded opportunities for the industry. United States environmental exports to Mexico grew by 385 percent between 1993 and 2000, due primarily to the increased growth generated by North American Free Trade Agreement.

STRENGTHENING THE ADMINISTRATION'S BATTLE AGAINST NON-TARIFF MEASURES

Trade Promotion Authority will help the United States close out negotiations on free trade agreements with Chile and Singapore and will help build momentum in support of the Free Trade Area of the Americas as well as the launch of a new round of global trade negotiations. In all of these bilateral and multilateral fora, the Administration is working hard to reduce barriers to U.S. exporters. To promote a global, regional and bilateral trade agenda and negotiate the best possible deals, the Executive branch needs as much negotiating leverage as possible. In the past, Presidential trade authority was used to reduce key non-tariff barriers in such areas as investment, intellectual property rights, standards and licensing. However, there is still more work to be done. Trade Promotion Authority will strengthen the U.S. position in trade negotiations and help complete trade agreements, by making clear to our trading partners that the Executive branch and the Congress agree on the need to move forward on trade liberalization.